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SUBJ: INDOJ-NEPALESE ECONOMIC RELATIONS

REF: KATHMANDU 0831 AND 0834

SUMMARY: FOREIGN MINISTRY DESK OFFICER FOR NEPAL, KIRAN DOSHI, VIEWS RECENT INDO-NEPALESE ECONOMIC DISCUSSIONS AS LAYING THE GROUNDWORK FOR A NEW ECONOMIC RELATIONSHIP BETWEEN THE TWO COUNTRIES. WHILE INDIA WILL STILL BE DEEPLY INVOLVED IN NEPAL'S ECONOMY, THE NEPALESE WILL MOVE TOWARD A GREATER MEASURE OF "SELF-RELIANCE", IN OBTAINING ESSENTIAL COMMODITIES. NEPAL IS EXPECTED TO PURCHASE AT LEAST ONE THIRD OF ITS PETROLEUM REQUIREMENTS FROM COUNTRIES OTHER THAN INDIA IN THE FUTURE. THE CEMENT PLANT TO BE CONSTRUCTED WITH INDIA'S ASSISTANCE IS EXPECTED TO FILL 90 PERCENT OF NEPAL'S REQUIREMENTS. THE RUPEE VALUE OF INDIAN (AND OTHER COUNTRIES') AID MAY INCREASE, BUT THE REAL VALUE WILL NOT GO UP MUCH. END SUMMARY.

1. KOSHI TOLD EMBOFFS THAT THE TALKS IN FEBRUARY WITH THE TWO NEPALESE DELEGATIONS HEADED RESPECTIVELY BY THE FOREIGN SECRETARY AND THE VICE CHAIRMAN OF THE NATIONAL PLANNING COMMISSION WERE LIMITED OFFICIAL USE

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SUCCESSFUL IN FOLLOWING UP ON THE KING'S VISIT TO PUT INDO-NEPALESE

ECONOMIC RELATIONS ON A MORE REALISTIC BASIS. THE NEPALESE ARE MORE AWARE OF THE ECONOMIC DEVELOPMENT VALUE OF THE INDIAN AID PROJECTS IN NEPAL, WHILE REALIZING THAT INDIA CAN NO LONGER SUPPLY COMMODITIES SUCH AS PETROLEUM PRODUCTS AND CEMENT TO THE SAME DEGREE AS IN THE PAST. REDUCED INDIAN SUPPLY OF THESE TWO COMMODITIES ISN'T GOING TO CHANGE BASIC NEPALESE RELIANCE ON INDIA. (DOSHI ESTIMATED 70 PERCENT OF NEPAL'S TRADE IS WITH INDIA THROUGH LEGAL CHANNELS AND ANOTHER TEN PERCENT THROUGH ILLEGAL CHANNELS, BUT IT MAY INVOLVE A PSYCHOLOGICAL CHANGE IN THE NEPALESE WAY OF DOING BUSINESS WITH INDIA. DOSHI GLOSSED OVER THE STRAINS THAT THE NEW RELATIONSHIP WOULD PUT ON THE NEPALESE ECONOMY.

2. PETROLEUM: DOSHI OBSERVED THAT THE NEPALESE DELEGATION HEADED BY THE FOREIGN SECRETARY HAD NOT PRESSED INDIA FOR INCREASED POL SUPPLIES BUT HAD GONE STRAIGHT INTO DISCUSSION OF WAYS INDIA COULD ASSIST NEPAL IN GETTING POL FROM ABROAD. WHILE NO FIRM DECISIONS WILL BE MADE ON INDIAN PETROLEUM SUPPLIES AND PRICES TO NEPAL UNTIL AFTER APRIL, THE NEPALESE FULLY REALIZE THAT THE ERA OF CHEAP POL FROM INDIA IS OVER (KATHMANDU 0831). DOSHI EXPECTED THAT IN 1974-75, NEPAL WOULD PURCHASE ONE THIRD TO ONE HALF OF ITS REFINED PRODUCT REQUIREMENTS FROM COUNTRIES OTHER THAN INDIA WITH HARD CURRENCY, AND INDIA HAS OFFERED NEPAL SOME ASSISTANCE ON MAKING PURCHASING ARRANGEMENTS WITH THE OPEC COUNTRIES. UNTIL APRIL, INDIA WILL CONTINUE TO OFFER NEPAL PETROLEUM AT THE PRESENT PRICE, WHICH WHILE HIGHER THAN A YEAR AGO, IS STILL SUBSIDIZED. DOSHI EXPECTED INDIA TO RAISE THE PRICE SUBSTANTIALLY THEREAFTER, CLOSE TO INTERNATIONAL LEVELS AFTERWARDS, ALTHOUGH PAYMENTS WILL STILL BE MADE IN RUPEES. ALTHOUGH INDO-NEPALESE TALKS ON PRICING ARE SCHEDULED FOR LATE MARCH, DOSHI DOUBTED A DECISION WOULD BE MADE UNTIL WELL INTO APRIL.

3. CEMENT: THE TURN-KEY CEMENT PLANT WPCCH INDIA WILL PROVIDE AS A RESULT OF THE VISIT OF THE VICE CHAIRMAN OF THE NATIONAL PLANNING COMMISSION MARKS A NEW DEPARTURE IN INDIA AID TO NEPAL. IN THE PAST IT HAS BEEN CONCENTRATED ON INFRASTRUCTURE AND TECHNICAL ASSISTANCE. NOW INDIA WILL ESTABLISH PLANTS WHICH MAKE NEPAL SELF-SUFFICIENT FOR SUPPLIES FROM INDIA. THE CEMENT PLANT, FOR EXAMPLE, WILL SATISFY UP TO 90 PERCENT OF NEPALESE REQUIREMENTS. (DOSHI ADMITTED, HOWEVER, THAT DETAILS, SUCH AS LOCATION OF THE PLANT, HAD NOT BEEN SETTLED).

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4. KARNALI: DOSHI THOUGHT THE NEPALESE CONTINUED TO BE OVERWHELMED BY THE MAGNITUDE OF THE PLANNED KARNALI HYDROELECTRIC PROJECT. MANY, MANY DECISIONS REMAINED TO BE MADE, AND HE DID NOT SEE THAT THE GON HAD BEEN GALVANIZED INTO ACTION BY THE OIL CRISIS. NEPAL SEEMED TO THINK KARNALI WOULD SATISFY ALL THE POWER NEEDS OF UTTAR PRADESH, BUT THIS WON'T BE TRUE IF, AS DOSHI THOUGHT LIKELY, KARNALI IS NOT COMPLETED BEFORE THE MID-TO-LATE 1980'S. INDIA

STILL WANTED THE PANCHESHWAR-DEVIGHAT PROJECT ON THE RIVER FORMING THE WESTERN BOUNDARY OF NEPAL, BUT THE NEPALESE WERE FAR MORE RELUCTANT TO MOVE ON THAT THAN ON KARNALI. IT WOULD PROBABLY HAVE TO WAIT UNTIL KARNALI WAS UNDERWAY.

5. OTHER ASSISTANCE TO NEPAL: DOSHI SAW THE HORTICULTURE, ANIMAL HUSBANDRY, AND OTHER SMALL AGRICULTURAL PROJECTS PROVIDED BY INDIA TO NEPAL TO BE TOO SMALL AND UNRELATED TO BE VERY USEFUL. THE NEPALESE GOVERNMENT WAS NOT ABLE TO CONCEPTUALIZE LARGE-SCALE PROJECTS WHICH COULD MAKE EFFECTIVE USE OF FOREIGN ASSISTANCE. DOSHI INDICATED THAT NO MAJOR AID DONOR TO NEPAL, INCLUDING THE PRC, IS PLANNING SUBSTANTIAL AID INCREASES TO KATHMANDU, SINCE THE NEPALESE ARE REACHING THE LIMITS OF THEIR CAPACITY TO ABSORB EXTERNAL ASSISTANCE. WHILE INDIA WILL INCREASE ITS AID AT LEAST 60 PERCENT OVER THE NEXT FIVE YEARS, THIS WILL ONLY COMPENSATE FOR INFLATION. HE MENTIONED A FIGURE OF INDIAN RS. 700 MILLION (\$90 MILLION) FOR THE NEXT INDIAN FIVE YEAR PLAN, COMPARED TO INDIAN RS. 450 MILLION (\$60 MILLION) IN THE CURRENT FIVE YEAR PLAN. DOSHI ADDED, HOWEVER, THAT AID PLANNING DOESN'T BEGIN FROM A FIGURE AND WORK BACKWARDS BUT STARTS WITH PROJECTS LIKE THE DHANKUTA ROAD AND THE CEMENT PLANT.

6. NEPALESE INDIAN RUPEE BALANCES: THE NEPALESE TRADE DEFICIT WITH INDIA IS OFFSET BY SMUGGLING FROM NEPAL TO INDIA, BY RETIREMENTS OF GURKHAS IN THE INDIAN ARMY (AND OTHER NEPALESE WORKING IN INDIA) AND BY INDIAN AID. THE STANDBY CREDIT INDIA GAVE NEPAL IN 1973 TO BOLSTER THE NEPALESE RUPEE AGAINST SPECULATION HAS NEVER BEEN USED AND WAS RECENTLY SUBSTANTIALY REDUCED. SCHNEIDER

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